Ameren Ex. 1.0

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 00-0007

DIRECT TESTIMONY

OF

WADE A. MILLER

Submitted on Behalf of

OF

CENTRAL ILLINOIS PUBLIC SERVICE COMPANY, d/b/a AmerenCIPS

AND

UNION ELECTRIC COMPANY d/b/a AmerenUE

February 25, 2000

OFFICIAL FILE

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Date 2-9-00 Reporter CB

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February 25, 2000

1. Q. Please state your name and business address.

A. Wade A. Miller, Ameren Services Company, One Ameren Plaza, 1901 Chouteau, P.O. Box 66149, St. Louis, Missouri 63166-6149.

2. Q. What is your position with Ameren Services Company?

A. My current position is that of Pricing Director in the Marketing Department.

3. Q. What are your duties as Pricing Director, and how long have you held this position?

A. My primary responsibilities are to develop pricing products, pricing methodologies and customer specific proposals to support Ameren's entry into deregulated retail markets. To perform my duties, I have to understand and stay up to date on various issues including wholesale market prices in Illinois, host utility delivery service rate schedules and rules and the host utility bundled tariffs and PPO rates with which Ameren is competing.

4. Q. What is the purpose of your testimony?

A. The purpose of my testimony is to comment on the form to be used, and the instructions to be followed, by electric utilities and Alternative Retail Electric Suppliers (ARES) to report contracts to the Neutral Fact Finder (NFF) under Section 16-112 of the Public Utilities Act as part of the NFF's calculation of market value. As I will also discuss, despite the best efforts of the Commission Staff (Staff) and other parties in the workshop process, there are several deficiencies in the report form and instructions that emerged from the workshop ("Proposed Form"). Ameren proposes certain changes to the Proposed Form in this proceeding. The Commission should, however, be aware that not all of the deficiencies in the Proposed Form can be fully rectified by changes to the form and/or instructions. Generally, those flaws that cannot be corrected arise from

and relate to the significant limitations inherent in the NFF process for determining market value.

5. Q. Why are you proposing changes to the Proposed Form?

A. The market value developed by the NFF will have a significant effect on the development of the competitive marketplace this summer, and, if the Commission again requires utilities to use the NFF value, in future years, as well. If, for example, the price for power determined by the NFF is too low, alternative suppliers will be less able to compete on the basis of price. Alternatively, if the price determined by the NFF process is too high, Illinois electric utilities will undercollect transition charges. Accordingly, it is essential that the NFF receive the best information possible, within the severe limitations of the NFF process. Even so, the Commission must recognize that, regardless of the form used, the participants in this proceeding cannot develop a form that will elicit data leading to a market value whose accuracy can be determined with certainty. Moreover, it is the quality of the data that the forms calls for, not the quantity, that is the most fundamental problem. While quantity can be a problem as well, attempts to correct a data quantity problem will not necessarily correct a quality problem. Hence, the Commission should resist any effort to use the reporting process to make a small amount of bad data look like a large amount of good data, such as by inventing hourly contract values for a contract that has none.

6. Q. How does this year's NFF market value compare with actual market prices?

A. Actual market prices for power and energy are higher than the market prices estimated for the year 2000 by the Neutral Fact Finder in the 1999 NFF report. For example, the NFF weighted average prices for 2000, issued June 7, 1999, are as follows:

	Summer Off-Peak	Summer On-Peak	Non-Summer Off-Peak	Non-Summer On-Peak
Energy (Per MWh)	$29.58	$32.14	$26.41	$27.79

That same day, however, the average of the monthly on-peak "into Cinergy" prices for 2000 as reported by Bloomberg was approximately $40.50. While the "into Cinergy" prices may not perfectly reflect Illinois prices, they can, in proper circumstances, serve as reasonable proxies for Illinois market prices, and any wide discrepancy between NFF on-peak values and "into Cinergy" prices cannot be explained due to a basis differential or similar minor adjustments.

7. Q. What would cause the results of the NFF process to underestimate the actual market value of power?

A. The NFF reporting process does not take into account a number of contract variables which affect the actual market value of power. These variables include the following:

1. The date upon which the contract was executed;
2. The allocation of risk between the parties to the contract;
3. The price structure of the contract; and
4. Non-commodity services bundled in the price.

8. Q. How does the date of the contract affect the NFF process?

A. The wholesale power markets have gone through a speedy and significant evolution over the past two and one-half years, primarily driven by summer price spikes. Prior to the summer of 1997, the highest hourly prices that most electricity operations personnel would have seen were emergency rates of $100 per MWh. Beginning with the summer of 1997, the status quo changed and significantly impacted the market as follows:

	Days Over $100/MWh	Maximum Price
1997	3	$ 239.54
1998	13	2,040.48
1999	16	2,016.68

The 1997 price spikes occurred in July. The 1998 events occurred in May, June, and July. The 1999 spikes occurred in June, July, and August. Including contracts entered into prior to May of 1998 will, therefore, distort and introduce a downward bias to the calculation of the current market price because, at the time of execution, the frequency and magnitude of potential price spikes were unknown and unanticipated.

Another characteristic of contracts entered into during 1997 and early 1998 is the long lead times between the execution by parties of an agreement and the date on which power deliveries begin. The longer the gap between execution and delivery the less reliable a contract is as an

indicator of market price at the time of delivery. The NFF, however, would treat all the contracts as if negotiated at the same time.

Moreover, MAIN capacity requirements have been evolving over this period as well. During the early part of the NFF study period, there was no market for MAIN-accredited capacity. Now the market is quite active. This raises a significant question -- should the value of capacity be set at zero for the older contracts, or should an attempt be made to somehow assign a value and unbundle? Either alternative could reasonably be deemed arbitrary and distortive.

9. Q. How does risk allocation affect market value?

A. The contract price is but one element in a series of terms and conditions essential to an agreement. Another key element is the allocation of risks between the parties. The seller may agree to a lower price in return for an ability to pass through some portion of the price spikes discussed above. Similarly, a buyer with a poor credit rating may agree to pay a higher price. A contract may include premiums and discounts associated with the assumption or shedding of five types of risk: market risk; volumetric risk; credit risk; operational risk; and regulatory risk.

Attempting to use a contract price without a quantification and detailed unbundling of risk premiums and discounts will yield a relatively

meaningless figure. However, any quantification would itself introduce arbitrary and potentially distortive effects.

10. Q. What problems are associated with price structure?

A. The principal problem is that which arises with multiyear contracts using flat pricing. It is simple to construct an example to demonstrate how the price structure of a contract can make the determination of a market value for a specific year within the contract term completely arbitrary. Schedules 1 through 3 to my testimony assume a situation in which all non-energy costs and risks have been properly unbundled, market participants are all using the same forward curve, and the only product being sold is around-the-clock (ATC) energy. Schedule 1 assumes that the parties agree to flat pricing, while Schedules 2 and 3 assume declining (5% annually) and increasing (5% annually) price structures respectively. All three structures result in a different summary price for 2001, even though each uses the same underlying market prices.

Admittedly, examples of price structures can be assembled to support any position on market prices. That is precisely the point. Any price structure will contain a financing component defined by the relative shapes of the forward curve and the pricing curve and the discount rate. Ignoring this fact will result in an inaccurate market price.

Moreover, the "Contract Price" stated in a contract is frequently not the "effective price" that the customer will pay in the end. For example a contract could have a "base" price for energy, but also include a "penalty" that would apply on a regular basis in order to provide price signals to the customer to encourage it to modify its profile. The number of ways that the "penalty" could be priced in the contract is only limited by one's imagination. The result is that the NFF may never be able to develop a single form that works well for the wide variety of contracts being reported.

With respect to retail contracts reported, the existing bundled tariffs and/or PPO tariffs create very real caps on the level of pricing for capacity and energy that retail customers will accept. Further, those caps are established based on historical utility /regulatory rate making principles. The wholesale markets operate on dramatically different principles, and there are no similar caps in those markets. The result is that there can be a significant disconnect between "real" (wholesale) market prices and "apparent" retail market prices embedded in retail contracts reported to the NFF.

11. Q. How do non-commodity services cause problems?

A. In addition to the financing and risk allocation components created by the various potential price structures, a myriad of other products may be included in the contract price: e.g., delivery services, credits or premiums

for generation assets or interruptability, regulatory capacity, and credit enhancements. Moreover, non-energy related products and services may be bundled with energy for a single flat price. The allocation of portions of the single flat price to the other services will be arbitrary, but must be used by the NFF to calculate a supposedly objective measure of market value.

12. Q. Do bundled retail contracts create any other problems?

A. Yes. It is inevitable that the NFF process will create a self-fulfilling prophecy with respect to the "market value" in retail contracts reported to the NFF on an ongoing basis. While other types of contracts (non-retail) may, in fact, create some fluctuation in "market price" reported by the NFF, from year to year, the fluctuations of those contracts will be mitigated in the resulting aggregate NFF price reported by the retail contracts reported for the same period. This is because retail contracts must (generally) be competitive with customers' PPO options. Previous NFF results determined the "market price" embedded in the current PPO. The results of the NFF process are used to define future transition cost recovery (TC values). The NFF reporting process then assumes that current TC values apply to all years of a reported contract. The result is that the NFF-determined market value for one year will greatly influence the determination in the next year, and so on.

13. Q. Can the problems and limitations of the NFF process discussed above be eliminated with revisions to the Proposed Form?

A. No. There are, however, certain changes which will improve (but not ensure) the accuracy of the NFF process.

14. Q. Please describe the changes you are proposing to the Proposed Form.

A. The principal change I am proposing to the Proposed Form is intended to promote consistency among the instructions in Sections D3, D4(a), E(a) and H(b). Those changes are identified in the redlined sections of the Proposed Form attached hereto as Schedule 4.

15. Q. Please explain the reason for the changes described above.

A. Ameren's additional instructions will clarify and promote uniformity in how reporting entities remove delivery service charges from bundled contracts. Our changes will also define how to uniformly report multiple prices applicable in a single period and how to report "blocked" rate structures where "blocked" means that the price varies over a period(s) based on volume or some variable other than time.

16. Q. What are the concerns about multiple price in a single period or blocked kWh pricing?

A. Absent our proposed instruction, a contract could only be adequately reported by "splitting" the load and providing multiple 8760 energy and pricing summaries which would significantly increase the complexity of reporting and review by the NFF.

In the case of blocked rates, the hourly unbundled price could only be determined for a future period by attribution and would in most cases be

different between months because of the blocked rate structure of the utility's tariff. The instructions clearly need to specify how to attribute the various components of the rate to assure comparability of results.

17. Q. Does this conclude your Direct Testimony?

A. Yes, it does.

SCHEDULE 1
EVALUATION OF NFF PROCESS
CALCULATION OF MARKET PRICES
USING FLAT-PRICE CONTRACTS

	1998	1999	2000	2001	2002	2003	2004	2005
Market Price								
On-Peak	$ 40.00	$ 41.00	$ 42.00	$ 43.00	$ 44.00	$ 45.00	$ 46.00	$ 47.00
Off-Peak	17.00	17.50	18.00	18.50	19.00	19.50	20.00	20.50
contract 1								
MW		10	10	10	10	-		
MWh		87,600	87,600	87,600	87,600	-		
Market Value	$	$ 2,459	$ 2,523	$ 2,586	$ 2,650	$ -	$	$
Price	$	$ 29.11	$ 29.11	$ 29.11	$ 29.11	$ -	$	$
Revenues	$	$ 2.550	$ 2,550	$ 2,550	$ 2,550	$ -	$	$
Contract 2								
MW		-	10	10	10	10		
MWh		-	87,600	87,600	87,600	87,600		
Market Value	$ -	$ -	$ 2,523	$ 2,586	$ 2,650	$ 2,713	$	$
Price	$	$ -	$ 29.83	$ 29.83	$ 29.83	$ 29.83	$	$
Revenues	$	$ -	$ 2,614	$ 2,614	$ 2,614	$ 2,614	$	$
Contract 3								
MW		-		10	10	10	10	
MWh		-		87,600	87,600	87,600	87,600	
Market Value	$	$ -	$	$ 2,586	$ 2,650	$ 2,713	$ 2,777	$
Price	$	$ -	$	$ 30.56	$ 30.56	$ 30.56	$ 30.56	$
Revenues	$	$ -	$	$ 2,677	$ 2,677	$ 2,677	$ 2,677	$
Contract 4								
MW		-		10	10	10	10	
MWh		-		87,600	67,600	87,600	87,600	87,600
Market Value	$	$ -	$ -	$ 2,586	$ 2.650	$ 2.713	$ 2.777	$ 2.840
Price	$	$ -	$	$ 31.53	$ 31.53	$ 31.53	$ 31.53	$ 31.53
Revenues	$	$ -	$	$ 2,762	$ 2,762	$ 2,762	$ 2,762	$ 2,762
Summary								
MWh		87,600	175,200	350,400	350,400	262,600	175,200	87.600
Revenues	$	$ 2,550	$ 5,164	$ 10,603	$ 10,603	$ 8,053	$ 5,439	$ 2,762
Contract Price	$	$ 29.11	$ 29.47	$ 30.26	$ 30.26	$ 30.64	$ 31.05	$ 31.53
Market Value	$	$ 2,459	$ 5,046	$ 10,346	$ 10,600	$ 8,140	$ 5,554	$ 2,840
Market Price	$	$ 28.08	$ 28.80	$ 29.53	$ 30.25	$ 30.98	$ 31.70	$ 32.43

2006	2007	PV
$ 48.00	$ 49.00	
21.00	21.50	
-	-	
-	-	
$ -	$ -	$ 8,836
$ -	$ -	
$ -	$ -	$ 8,836
-	-	
-	-	
$ -	$ -	$ 6,544
$ -	$ -	
$ -	$ -	$ 8.544
-	-	
-	-	
$ -	$ -	$ 8,256
$ -	$ -	
$ -	$ -	$ 8,256
10	10	
87,600	87,600	
$ 2,904	$ 2,967	$ 13,723
$ 31.53	$ 31.53	
$ 2,762	$ 2,762	$ 13,723
87,600	67,600	
$ 2,762	$ 2,762	
$ 31.53	$ 31.53	
$ 2,904	$ 2,967	
$ 33.15	$ 33.88	

SCHEDULE 2
EVALUATION OF NFF PROCESS
CALCULATION OF MARKET PRICES
USING DECLINING-PRICE CONTRACTS

	1998	1999	2000	2001	2002	2003	2004	2005
Market Price								
On-Peak	$ 40.00	$ 41.00	$ 42.00	$ 43.00	$ 44.00	$ 45.00	$ 46.00	$ 47.00
Off-Peak	17.00	17.50	18.00	18.50	19.00	19.50	20.00	20.50
Contract 1								
MW	-	10	10	10	10	-		
MWh	-	87,600	87,600	87,600	87,600	-		
Market Value	$ -	$ 2.459	$ 2,523	$ 2,586	$ 2,650	$ -	$	$
Price	$ -	$ 31.27	$ 29.71	$ 28.22	$ 26.81	$ -	$	$
Revenues	$ -	$ 2,739	$ 2,602	$ 2,472	$ 2,349	$ -	$	$
Contract 2								
MW	-		10	10	10	10		
MWh	-		87,600	87,600	87,600	87,600		
Market Value	$ -	$	$ 2,523	$ 2,586	$ 2,650	$ 2,713	$	$
Price	$ -	$	$ 32.05	$ 30.45	$ 28.92	$ 27.48	$	$
Revenues	$ -	$	$ 2,807	$ 2,667	$ 2,534	$ 2,407	$	$
Contract 3								
MW	-			10	10	10	10	
MWh	-			87,600	87,600	87,600	87,600	
Market Value	$ -	$	$ -	$ 2,586	$ 2,650	$ 2,713	$ 2,777	$
Price	$ -	$	$ -	$ 32.83	$ 31.19	$ 29.63	$ 28.15	$
Revenues	$ -	$	$ -	$ 2,876	$ 2,732	$ 2,595	$ 2,466	$
Contract 4								
MW	-			10	10	10	10	
MWh	-			87,600	87,600	87,600	87,600	87,600
Market Value	$ -	$	$ -	$ 2,586	$ 2,650	$ 2,713	$ 2,777	$ 2.840
Price	$ -	$	$ -	$ 36.15	$ 34.34	$ 32.63	$ 31.00	$ 29.45
Revenues	$ -	$	$ -	$ 3,167	$ 3,009	$ 2,858	$ 2,715	$ 2,579
Summary								
MWh	-	87,600	175,200	350,400	350,400	262,800	175,200	87,600
Revenues	$ -	$ 2,739	$ 5,410	$ 11,182	$ 10,623	$ 7,860	$ 5,181	$ 2,579
Contract Price	$ -	$ 31.27	$ 30.88	$ 31.91	$ 30.32	$ 29.91	$ 29.57	$ 29.45
Market Value	$ -	$ 2,459	$ 5,046	$ 10,346	$ 10,600	$ 8,140	$ 5,554	$ 2,840
Market Price	$ -	$ 28.08	$ 28.80	$ 29.53	$ 30.25	$ 30.98	$ 31.70	$ 32.43

2006	2007	PV
5 48.00	$ 49.00	
21.00	21.50	
	-	
	-	
$	$ -	$ 8,836
$	$ -	
$	$ -	$ 8,836
	-	
	-	
$	$ -	$ 8,544
$	$ -	
$	$ -	$ 8,544
	-	
	-	
$	$ -	$ 8,256
$	$ -	
$	$ -	$ 8,256
10	10	
87,600	87,600	
$ 2,904	$ 2,967	$ 13,723
$ 27.97	5 26.57	
$ 2,450	$ 2,328	$ 13,723
87,600	87,600	
$ 2,450	$ 2,328	
$ 27.97	$ 26.57	
$ 2,904	5 2,967	
$ 33.15	5 33.88	

SCHEDULE 3
EVALUATION OF NFF PROCESS
CALCULATION OF MARKET PRICES
USING INCREASING-PRICE CONTRACTS

	1998	1999	2000	2001	2002	2003	2004	2005
Market Price								
On-Peak	$ 40.00	$ 41.00	$ 42.00	$ 43.00	$ 44.00	$ 45.00	$ 46.00	$ 47.00
Off-Peak	17.00	17.50	18.00	18.50	19.00	19.50	20.00	20.50
Contract 1								
MW	-	10	10	10	10			
MWh	-	87,600	87,600	87,600	87,600			
Market Value	$ -	$ 2,459	$ 2,523	$ 2,586	$ 2,650	$ -	$	$
Price	$ -	$ 27.11	$ 28.47	$ 29.89	$ 31.39	$ -	$	$
Revenues	$ -	$ 2,375	$ 2,494	$ 2,618	$ 2,749	$ -	$	$
Contract 2								
MW	-	-	10	10	10	10		
MWh	-	-	87,600	87,600	87,600	87,600		
Market Value	$ -	$ -	$ 2,523	$ 2,586	$ 2,650	$ 2,713	$	$
Price	$ -	$ -	$ 27.78	$ 29.17	$ 30.63	$ 32.16	$	$
Revenues	$ -	$ -	$ 2,434	$ 2,555	$ 2,683	$ 2,817	$	$
Contract 3								
MW	-	-	-	10	10	10	10	
MWh	-	-	-	87,600	87,600	87,600	87,600	
Market Value	$ -	$ -	$ -	$ 2,586	$ 2,650	$ 2,713	$ 2,777	$
Price	$ -	$ -	$ -	$ 28.46	$ 29.89	$ 31.38	$ 32.95	$
Revenues	$ -	$ -	$ -	$ 2,493	$ 2,618	$ 2,749	$ 2,886	$
Contract 4								
MW	-	-	-	10	10	10	10	
MWh	-	-	-	87,600	87,600	87,600	87,600	87,600
Market Value	$ -	$ -	$ -	$ 2,586	$ 2,650	$ 2,713	$ 2,777	$ 2,840
Price	$ -	$ -	$ -	$ 27.42	$ 28.79	$ 30.23	$ 31.74	$ 33.33
Revenues	$ -	$ -	$ -	$ 2,402	$ 2,522	$ 2,648	$ 2,780	$ 2,919
Summary								
MWh	-	87,600	175,200	350,400	350,400	262,800	175,200	87,600
Revenues	$ -	$ 2,375	$ 4,927	$ 10,069	$ 10,572	$ 8,214	$ 5,667	$ 2,919
Contract Price	$ -	$ 27.11	$ 28.12	$ 28.74	$ 30.17	$ 31.26	$ 32.34	$ 33.33
Market Value	$ -	$ 2,459	$ 5,046	$ 10,346	$ 10,600	$ 8,140	$ 5,554	$ 2,840
Market Price	$ -	$ 28.08	$ 28.80	$ 29.53	$ 30.25	$ 30.98	$ 31.70	$ 32.43

2006	2007	PV
$ 48.00	$ 49.00	
21.00	21.50	
-		
-		
$ -	$	$ 8,836
$ -	$	
$ -	$	$ 8,836
-		
-		
$ -	$	$ 8,544
$ -	$	
$ -	$	$ 8,542
-		
-		
$ -	$	$ 8,256
$ -	$	
$ -	$	$ 8,256
10	10	
87,600	87,600	
$ 2,904	$ 2,967	$ 13,723
$ 34.99	$ 36.74	
$ 3,065	5 3,219	$ 13,723
87,600	87,600	
$ 3,065	$ 3,219	
$ 34.99	$ 36.74	
$ 2,904	$ 2,967	
$ 33.15	$ 33.88	

SCHEDULE 4

Section D.3

(c) when deducting delivery service charges:

(i) if the bundled contract expresses the price of electricity in terms of energy only, but the delivery service charge is calculated on the basis of demand and energy,

a. &&&compute the demand component (kW) by using the hourly energy usage data~~assumptions~~ set forth for that contract in the contract summary form "Hourly Usage Data," pursuant to Instruction I, "Energy Usage – Completion of Excel Worksheet 'Usage"';

b. utilize the demand to compute dollars of delivery service charges

c. divide the delivery service charges by the mWh for the pricing period(s) that the delivery service charges are applicable to as defined by the delivery service tariff

d. subtract item c) above from the bundled price for each of the periods to be specified under section D)4)a) below.

Section D.4.b)

Add the following:

When multiple prices apply on a volumetric basis during a pricing period or when "blocked" rates apply to a period" the weighted average price will be identified for each period in addition to the individual and/or "blocked" prices.

Section H.b)

Add the following:

Where multiple prices and/or "~~"~~blocked~~"~~" prices apply in a period ~~and/or ""blocked" prices apply~~, the weighted average price will be that displayed in the "~~"~~Hourly Prices~~"~~" under this section.